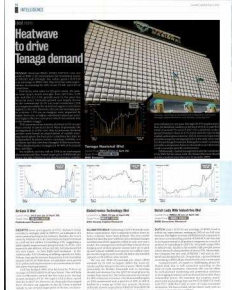


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Local scene

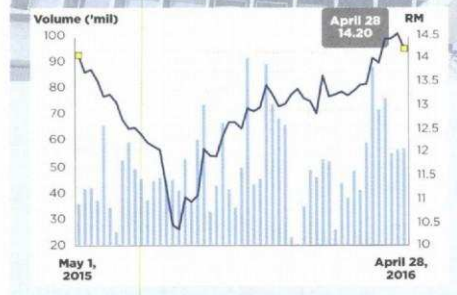
Heatwave to drive Tenaga demand

TENAGA Nasional Bhd's (TNB) Q2FY16 core net profit of RM1.5 bil (normalised for translation losses of RM235 mil) brought the utility giant's H1FY16 core earnings to RM3.5 bil. This is in line with expectations, accounting for 50% of our FY16F and 51% of consensus.

Electricity unit sales in Q2 grew some 4% year-on-year (yoy), much stronger than Q1FY16's 3.2% yoy and the 2.2-2.5% growth seen in the past two financial years. Demand growth was largely driven by the commercial (6.1% yoy) and residential (12% yoy) segments while the industrial segment was down slightly (1.4% yoy). However, Q2 core net earnings grew by a slower 1.3% yoy as margins were impacted by higher fuel cost, ie higher subsidised piped gas price and higher effective coal price which was mainly due to the weaker ringgit.

TNB announced an interim dividend of 10 sen per share, similar to last year's level. More importantly, the management is of the view that its previous dividend policies were based on expectations of volatile earnings trends given the fuel price volatilities but after its independent business review, earnings visibility is a lot better and this view has changed. In the meantime, TNB's dividend policy is pegged at 40-60% of its annual free cash flow.

We reaffirm our buy call on TNB at an unchanged discounted cash flow-based target price of RM16.80 per share. We like TNB for (i) its strong earnings visibility



Tenaga Nasional Bhd

Current Price: **RM14.20** (as of April 28)

Target Price: **RM16.80 BUY**

MIDF Research

Tenaga's earnings to benefit from imbalance cost pass-through implementation and strong consumption

post-imbalance cost pass-through (ICPT) implementation; (ii) dividend catalyst on the back of its free cash flow yield of around 7% over FY16F/17F, a relatively under-gear balance sheet at 0.35 times and the upcoming capital optimisation exercise; (iii) its overseas expansion provides scope for stronger growth in the mid-term; and (iv) the prolonged heatwave hitting the country currently provides a temporary boost to demand in an otherwise, weak economic growth environment.

Additionally, capital management and the resolution of its RM2 bil tax issue with the Inland Revenue Board are key catalysts over the next 12 months. **FocusM**